

**A Review of the
Ghana Internal Revenue Service (IRS)
Delinquent Account Procedures**

August 2002



Sigma One Corporation

**A Review of the
Ghana Internal Revenue Service (IRS)
Delinquent Account Procedures**

Submitted to:

**U.S. Agency for International Development
Mission to Ghana**

for:

**Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229**

by

**Robert Phillips
James Valentine
Sigma One Corporation**

In fulfillment of the following milestones:

**2.31 Evaluate Revenue Increases from Pilot testing areas new
collection procedures and make recommendations for expansion**

August 2002

Sigma One Corporation

August 5, 2002

MEMORANDUM FOR

To: Mr. Abrar A. Sattar, Technical Director,
Dr. Joseph Goodwin, Chief of Party - Accra, Ghana
Sigma One Corporation

From: Robert Phillips and James Valentine
Consultants in Tax Administration

Subject: Trip Report –Republic of Ghana - Review of the IRS Delinquent
Accounts Procedures by Robert Phillips and James Valentine

Executive Summary

In September 1999 Robert Phillips and James Valentine completed a review of the tax collection process and procedures of the Republic of Ghana's Internal Revenue Service (IRS). The review concluded with the drafting and publication of a *Revenue Collection and Compliance Manual*, and the providing of three weeks training for selected Internal Revenue Personnel. The purpose of this follow-up by Mr. Phillips and Mr. Valentine was to review the delinquent account procedures currently in use by IRS; to evaluate the effectiveness of the previously recommended procedures and reforms; and to make additional suggestions to enhance the collection of delinquent taxes. This review was conducted during June 2002 and involved interviews with headquarters managerial officials, and observations and file reviews at three district operations.

We found that little had been done to implement the recommendations and the procedural instructions developed in the previous trips to Ghana. *The Revenue Collection and Compliance Manual* drafted for Ghana had not been widely distributed and the procedures therein were generally unknown except to managers and some collectors in the two districts originally designated as "pilot" operations, and by a Large Taxpayer Unit whose manager had attended some of the original training. Additional training and exposure to the manual procedures and collection techniques had not been conducted.

The decision not to proceed with implementation and training of additional personnel seemed to be based on the faulty assumption that such effort would be futile, as plans were being developed to obtain computers and automate the collection process. This reasoning is faulty since the procedures in the compliance manual are, with minor

modifications in inventory controls, equally useful in an automated or non-automated environment.

Although not formally and completely adopted by any district the experience of the two originally proposed pilot groups and that of the “large taxpayer organization” (LTO) in Accra points out the advantages and increased revenue that can be obtained by adoption of even parts of the procedures. Some of the increase is due to changing economic factors, however, more efficient and effective collection techniques and improved management controls account for much of the success.

We have revisited some of the original recommendations and provided additional suggestions where appropriate. However, unless there is more commitment to change and additional training of managers and follow-up assistance provided there will be little progress in improving collection practices and results.

Background

In September 1999 Robert Phillips and James Valentine completed a review of the tax collection process and procedures of the Republic of Ghana's Internal Revenue Service (IRS). The review concluded with the drafting and publication of a *Revenue Collection and Compliance Manual*, and the providing of three weeks training for selected Internal Revenue Personnel. The IRS was urged to establish of a pilot operation to initiate and test the manual procedures in two districts in Ghana. We further expected the IRS training activity, using the personnel we had trained in this first session, to extend the training to all members of the Collection organization. Additional recommendations for reform of the collection activity were made and our final report noted several concern and potential problem areas and offered suggestions to enhance operations. For informational purposes a copy of the September 1999 report and recommendations is included as attachment one. In addition, you may find it informative to review the previously submitted report entitled *An Analysis and Proposal for Change in Tax Administration in the Republic of Ghana*, That was prepared following our March, 1999 review of the Ghana Internal Revenue Service.

The purpose of this follow-up by Mr. Phillips and Mr. Valentine was to review the delinquent account procedures currently in use by IRS; to evaluate the effectiveness of the previously recommended procedures and reforms; and to make additional suggestions to enhance the collection of delinquent taxes.

This review was conducted during June 2002 and involved interviews with headquarters managerial officials, and observations and file reviews at three district operations – Accra Large Taxpayer Group, The Osu and Adabraka district offices. These districts were to be the original pilot districts in implementing the procedures provided in the collection manual.

It should be noted that the *Revenue Collection and Compliance Manual* was drafted using the then existing tax law that had been enacted in 1975. This law has since been revised in the *Tax Act of 2000*. Although references have changed requiring minor revision of suggested forms and references, the basic laws as they relates to collection of delinquent accounts and administrative procedures are substantially unchanged. The recommended procedures are still valid.

Reporting the Review

Due to circumstances, which resulted from my illness and delay, we were unable to develop a completely integrated trip report. Mr. Valentine and I have collaborated where possible, but since neither of us was active in all phases of the review, we have developed separate commentaries and recommendations. Although separate in presentation we both share the views of the needed and recommended actions.

Review and Recommendations

Based on interviews and observations it appears that the formalization of a pilot operation to implement the provisions of the *Revenue Collection and Compliance Manual* were only partially implemented in two district offices. Additional training in the provisions and procedures of the manual was not conducted and the procedures were not installed in other districts.

The decision not to proceed seemed to be based on the faulty assumption that such effort would be futile, as plans were being developed to obtain computers and automate the collection process. This reasoning is faulty since the procedures in the compliance manual are, with minor modifications in inventory controls, equally useful in an automated or non-automated environment. It is my understanding that automation remains an uncertain and distant prospect for collection in the IRS. Even when computers are available the use thereof will require standardization of collection procedure and processes. The manual in its current form provides guidance for establishing that required standardization. Most of the procedures recommended in the manual are completely independent of any automated system requirement, but are completely compatible with a computer automated collection system. The recommended organizational structure is equally effective and required for a more efficient operation of tax administration. The inventory control system can improve current control and performance and be modified to take advantage of automation when it becomes available. Further, procedures regarding uncollectible account processing, financial analysis, and the necessity to provide for enforcement in cases where taxpayers continue to refuse or neglect payment of their delinquent obligations are part of all modern effective and efficient tax administration systems.

Adoption of New Procedures and Practices

Although not formally and completely adopted by any district the experience of the two originally proposed pilot groups and that of the “large taxpayer organization” (LTO) in Accra points out the advantages and increased revenue that can be obtained by adoption of even parts of the procedures. The LTO has made effective use of forms and letters designed for taxpayer contact and to encourage compliance. Processing has become more efficient by adopting the practice of establishing individual case files and using the case history sheet to record all actions taken on a collection case. Mr. Willy L.S. Morny, the Assistant Commissioner of the Large Taxpayer Organization, has made use of some of the installment payment procedures and has shown an interest in further expanding the application of procedures to collections cases within his organization. Representatives

from his organization requested and received additional instructions relative to the procedures. The resulting increased collections by the large tax organization for the years 1999 through 2001 exceeded 809,782,489,130 Cedis (an increase of 140% over the three years.) Although some of the increase is due to changing economic factors, more efficient and effective collection techniques and improved management controls account for much of the success.

The Osu District office and the Adabraka District office have also experienced a significant increase in revenue collections during the period from 1999 to 2001. Although not as dramatic as the increase in the amount collected by the LTO these two districts also made significant gains – as much as a 73% increase. Like the LTO these districts, being designated as the original “pilot” districts, have experimented with some of the recommended procedures in the collection manual.

Organizational Structure

Common Types of organizational Structure in Collection Organizations:

Organization by Type of Tax

Many newly emerging free market economies are initially organized as “type of Tax” organizations. The responsibilities and authorities to Process, Assess, Audit and Collect Tax Delinquencies are assigned to separate activities for each type of tax. While the type of tax organizational structures simplifies some of the operations the cost in terms of efficiency and effectiveness generally outweighs the advantage of simplicity. The first deficiency in this organization structure is the required duplication of overhead and administrative support.

Further it requires the duplication of activities in some of the specialized areas of tax administration. For example:

Collection of delinquent taxes in a *type of tax organization* is one example to the unnecessary duplication. A taxpayer that is delinquent in the payment of one type of tax is, most likely, delinquent in the payment of any other type of tax for which he is liable. The consequence of the type of tax organizational structure is such that different components of the tax administration might be competing against each other to collect their respective type of tax from the taxpayer. The collection process can be applied to any type of tax and in the same manner and a specialty, or functional, approach enables the combining of all tax arrears from any type of tax into a single collection effort.

In short, a type of tax organization does not permit the application of specialization or the realization of the economies of scale. Further, it creates an unwarranted burden on the taxpayer by causing repeated visits by the tax administration where as one audit or collection visit could resolve the full range of tax questions.

Functional Organization Structure

Most modern Tax Administrations operating in a free market economy are organized along the *Functional Organizational Structure*. This permits the advantages of specialization and the economies of sale. Instead of repeated visits to the taxpayer to collect the various type of taxes for which he may be liable, all the tax arrears becomes the responsibility of one organization. Thus, one contact will be more efficient and time saving for the tax administration and the taxpayer.

Functional Organization—Form of business organization in which authority is determined by the relationships between group functions and activities.

1. Line Authority—Organizational structure in which authority flows in a direct chain of command from the top of the company to the bottom.
2. Staff Authority—Authority that is based on expertise and which usually involves advising line managers.

Staff members—Advisers and counselors who aid line departments in making decisions but do not have the authority to make final decisions.

Authority—Power to make the decisions necessary to complete a task.

Accountability—Liability of subordinates for accomplishing tasks assigned by managers.

The Functional Organizational Structure Permits:

- Specialization of task
- Development of professional standards
- Enhanced training for employees
- Granting of authority on an “as needed” basis
- Fixing of responsibility
- Monitoring of performance
- Targeted training development

Additionally each facet of tax administration is a specialty in itself and requires special skills and training. A collector need not know all the details and procedures of auditing a tax return. However, when segregated by type of tax or type of taxpayer, the organization may results in overlap of responsibilities and unnecessary taxpayer contacts. A collector can be equally skilled at collecting income tax from an individual as in collecting corporate tax from mining or other specialized operation. To have separate collectors based on taxpayer, type of tax,, or industry type is a duplication of effort and an inappropriate use of resources.

There is a need to revise the organizational structure of the IRS as it relates to the collection of delinquent taxes.

Inventory Control - Uncollectible Accounts

Current practices in the Internal Revenue Service do not include the certifying of any tax debts as currently not collectible and the suspension of activities on the part of IRS to recover doubtful amounts due the government. As a result, worthless accounts continue to be held as account receivable in the national accounting system and in the individual inventory of collection officers. Such a practice distorts the record of potential income available to the government by including in the accounts receivable money that will never, for a variety of reasons, be collected and available to national treasury. The decision to retain these doubtful accounts also impacts on the effectiveness of the IRS collection officer.

The accumulation of these accounts in the work responsibility leads to a useless process of repeatedly handling and attempting collection at the expense of collection efforts and activities on other accounts with greater collection potential. The large number of accounts prevents proper organization of the work and the establishing of priorities in collection. The sheer volume of collection accounts makes it extremely difficult for managerial control to be effectively exercised.

Proper evaluation and selection of the doubtful accounts could effectively reduce the inventory and permit greater attention to the other potentially collectible accounts with a minimum loss due to the decision not to pursue the collection of some accounts. Accounts of a pre determined nominal value should not be pursued since he cost of collection will exceed the amount outstanding. Indeed, collections should increase by virtue of the more effective selection of priorities and the improved management direction and control.

It is my opinion that the authority to declare an account as “currently not collectible” rest with the Commissioner. I further am of the opinion that such authority can be re-delegated by the commissioner to selected individuals. Therefore, we recommend that

the following action be taken to achieve a manageable inventory level and establish more effective priorities for Collection Officers.

Tolerance of Small Balance Amounts:

1. Select all accounts on which the final assessment was made more than one year previously, and the balance due is less than an amount deemed to be equal to or less than the cost of collection. The Commissioner based on the estimated cost and collection potential should set this amount. As an initial estimate we recommend that the amount set as tolerance should be established as 75,000 Cedis.
2. Accounts thus identified and selected should be processed in accordance with the instructions contained in Chapter 5 of *the Revenue Collection and Compliance Manual for the Republic of Ghana*. A separate Report of “currently not collectible” taxes on Form Number Col.111 should be prepared for each taxpayer on which an amount has been determined to as appropriate for tolerance.
3. Complete the “currently not collectible” form Col. 111 by entering the taxpayer’s name, tax identification number, the type of organization, the description of the accounts, and signature of recommending officer. In the “narrative” section enter **“Tolerance per Chapter 5, Section 8.1”**. It is not necessary to complete the additional entries in cases involving only “Tolerance” amounts
4. Route the completed Form Col.111 with the case file through the supervisory channels for approval. After approval a copy of the Col. 111 will be routed to the appropriate section in the office of the Deputy Commissioner Finance and Administration to adjust the accounts receivable inventory to reflect the disposition of the amount.

Unable to Locate Taxpayers

A second reason to certify an outstanding liability as “not currently collectible” is those cases involving taxpayers that cannot, after diligent search effort, be located. These may include taxpayers that are deceased, departed the country, or otherwise have no locatable assets from which the debts can be collected. Once it has been determined with reasonable certainty, that all justifiable effort to locate and contacting the taxpayer has been taken without success, it is appropriate to certify that the account is not currently collectible and suspend all collection actions in accordance with the procedures described in the IRS Manual.

Since there exist a large body of aged accounts on which no contact has been made over an extended period it is recommended that the following actions be taken to expedite the resolution of these accounts and more accurately represent the true value of the account receivables inventory as well as eliminate the useless processing attempt by collection officers.

It is recommended that the following actions be taken:

Review accounts inventory and select all accounts that were assessed as final assessments more than two years previously.

1. Determine if there has been any taxpayer contact within the past two years. If not, review the *Revenue Compliance Collection Manual*, Section 5.8.4 and the Form Col. 111 to insure that all the suggested actions have been taken.
2. If not, conduct an investigation to include suggested items that might assist in locating the taxpayer. Document the case history sheet with a record of each action taken and the result thereof.
3. If all reasonable effort has been made and the taxpayer still has not been located certify the account as not currently collectible by completing Form Col. 111.
4. Each section of the Form Col. 111 should have an entry or be noted as N/A (not applicable). Particular attention should be given to the **”Records/sources checked to verify” section**. This is where the attempt to locate the taxpayer is verified.
5. The “Narrative” section should contain a brief statement of other actions taken and any known reason why the taxpayer cannot be located.
6. Submit the Form Col.111 for approval.
7. If, in the opinion of the investigation officer or reviewing official the taxpayer may later be located, or the amount due justifies a future review, a follow-up investigation should be required by completing the appropriate section of the Mandatory Follow-up section of Form Col. 111.
8. Route the completed Form Col.111 with the case file through the supervisory channels for approval. After approval a copy of the Col. 111 will be routed to the appropriate section in the office of the Deputy Commissioner Finance and Administration to adjust the accounts receivable inventory to reflect the disposition of the amount.
9. All future accounts should be promptly certified as not currently collectible when it is determined as unable to locate the taxpayer.

Inability to Pay Tax Debts

The final category of not currently collectible account is that related to the inability of the taxpayer to make payment. It may be a company that is bankrupt, a company completely without assets or income or an individual who has only the income of assets necessary to sustain a livelihood for his or her self and family.

A thorough investigation must be conducted to determine what assets and/or income is available to the taxpayer. The assets and income, or the absence of any, must be documented on a collection information statement. It should be completed from information given by the taxpayer and signed by the taxpayer under penalty of the false documents law. The form and the collection officer's investigation must verify that the effort to collect the tax would impose a true hardship on the taxpayer.

All accounts more than two years after final assessment should be reviewed to identify those likely to be not currently collectible due to the taxpayer's inability to pay.

To report an account as not currently collectible the Collection Officer must:

1. Certify the account as currently not collectible by completing the form Col.111.
2. Each section must be completed or noted as not applicable,
3. The narrative must fully support the fact that the taxpayer is unable to pay the tax from either his assets or his income.
4. If the Collection Officer or the reviewing official has reason to believe that the financial condition of the taxpayer will improve in the future a mandatory follow-up should be scheduled by completing the section and establishing a date for the follow-up. If there is no or very little likelihood that the taxpayer will ever be able to pay do not schedule a follow-up.
5. Route the completed Form Col.111 with the case file through the supervisory channels for approval.
6. After approval a copy of the Col. 111 will be routed to the appropriate section in the office of the Deputy Commissioner Finance and Administration to adjust the accounts receivable inventory to reflect the disposition of the amount.
7. All future accounts should be promptly certified as not currently collectible when it becomes evident that all reasonable steps to locate the taxpayer have been taken.

Collection officials and officers should keep in mind that the certification of an account as not currently collectible does not forgive the tax debt. Any account can be reactivated for follow-up when conditions justify. It is, however, a means to clarify account receivables to reflect the true amount of likely collections at the disposal of the government and to organize the workload of the Collection Activity to simplify planning, promote efficiency and provide improved managerial control.

Enforcement Activity

One district has undertaken some enforcement activity by the padlocking of selected businesses which failed to timely pay delinquent taxes. Although they have not followed through with the actual sale of the seized assets or strictly conformed to the procedure recommended in the collection manual (or possibly with the laws of the Republic) they have adopted the concept of enforcement as part of the tools of an effective collection organization. This is the only evidence of any enforced payment to my knowledge being imposed by the IRS.

An effective and efficient tax collection organization requires the use of many tools. With the apparent exception of this one district office, The Internal Revenue Service of Ghana has generally failed to avail itself to the opportunities and authorities provided by the laws of the Republic. The procedural manual provides detailed instructions for the levy on bank accounts or other sources of funds due a delinquent taxpayer. There is additional detailed procedure for conducting seizure and sale of property to apply the proceeds to payment of delinquent taxes. We saw no evidence that such action was or had been considered as a tool to collect delinquent taxes.

Implementing New Lien Procedure

The Revenue Act, 200 (ACT) 592) authorized the filing of a lien, or charge, against immovable property of persons who have failed to timely pay taxes to the Republic of Ghana. Division III, Section 137 of that act authorizes the Commissioner of Internal Revenue to file with the Chief, Register of Lands, a document which identifies the individual or company that has failed to pay and directs the Chief, Register of Lands to cause a charge, or mortgage, against any and all Land or Buildings belonging to the delinquent taxpayer.

Recommended Procedure

If 15 days after due notice to the taxpayer the taxes remain unpaid, the Commissioner is authorized to issue a notice and directive to the Chief, Register of Lands requiring the registration of the IRS claim against said property of the taxpayer. The attached format (designated as FormTemp.01) will be used as notification to the Register of Lands.

It will be the responsibility of the collection officer to determine if a delinquent taxpayer who, after notification, refuses or neglects to pay past due taxes is the owner of any immovable property. This should be done by taxpayer interview or, as necessary by consultation with the Office of the Register of Lands. Once it is determined that the taxpayer is the owner, or otherwise has an interest in land or building(s) registered with that office, the collection officer will prepare, in triplicate, the notice of lien for unpaid taxes. All information to establish the taxpayer's identity, the amount and type tax together with the taxable period must be entered on the form. The authorized representative of the Commissioner of Internal Revenue must sign and date the form. The collection officer who will certify delivery by signing must accomplish the delivery to the Office of the Register of Land and date the form in the space provided. The lien becomes a claim for payment and said property can not be transferred to a third party pending payment or other resolution of the amount due IRS.

The original of the Form Temp.01 is given to the Chief, Register of Land; the first copy becomes a part of the taxpayer's case. The third copy is mailed or delivered to the taxpayer immediately after filing with the Office of the Register of Land.

Upon receipt of payment the collection officer is responsible for preparation of a memo acknowledging receipt of payment and satisfaction of the IRS claim against the property. This memo, after approval by the Assistant Commissioner, will be delivered to the Chief, Register of Lands where the original lien was filed. The Lien will be cancelled and its effect is declared null and void.

To insure a common understanding of responsibilities a meeting should be held with the Office of the Chief, Register of Land prior to initial filing of the first lien. A proposed format for requesting and recordation of a lien for payment of taxes is provided below.

REPUBLIC OF GHANA
INTERNAL REVENUE SERVICE

LIEN FOR UNPAID TAXES

Taxpayer's Name

Identification Number

Address

To: The Chief Register of Lands, _____ District, Republic of Ghana.

In accordance with the Internal Revenue Act of 2000 (Act 592) Division III, Section 137 you are advised that the above named taxpayer has unpaid taxes in the amount and for the period described below. You are hereby advised and directed to register this claim on behalf of the Republic of Ghana as an instrument, mortgage, or charge on all land or buildings of the above named taxpayer. The registration shall, subject to any prior mortgage of charge, operate in all respects as a legal mortgage or charge on the land or building to secure payment of the unpaid taxes.

Unpaid taxes

| Type of tax | Taxable Period | Amount Due |
|-------------|----------------|------------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Total | | |

By authority of the Commissioner of Internal Revenue signed _____ day of _____, in the year _____.

Approved: _____
Assistant Commissioner

Certificate of Service: _____
Signature of Collection Officer Date Served

Financial Analysis and Installment Payment of Delinquent Taxes

Installment payment authority to collect taxes is being used in some instances. It has, however, been used primarily for installment payment of provisional taxes. The Assistant Commissioner (Collection) has decided that provisional taxes are due to be paid timely and not the proper subject of installment agreements. He has determined that installment payment will not be an option for payment of provisional taxes. While there seems to be general agreement on approval authority and when installment agreements may be used, there was little evidence of and financial analysis or collecting of financial data to aid in determining if such an agreement is appropriate or if it is the best course of action to protect the revenue of the Republic. More analysis of financial data and payment options should be considered prior to granting of payment deferrals through installment payments. Proper analysis and determination can only be made after securing adequate financial information. The Collection Information Statement should be used as prescribed for such purpose.

Other Observations and Recommendations

As you will recall, Mr. Valentine continued to conduct meetings with IRS officials and review the status of the IRS collection activity during nine days I was hospitalized. His findings and recommendations based on his independent work are reported below.

Abbreviated Classroom Course Based on The Revenue Collection and Compliance Manual

Mr. Nyamordey, Asst. Commissioner for Collection requested that we conduct a three-day review of our collection manual for district and regional managers. There were 21 managers in attendance. They had not attended the earlier session and, for the most part, were unfamiliar with the process. The training division has not conducted the class for collectors since we presented it over two years ago. We expressed our concern that a course designed for three full weeks of classroom time could not possibly be given proper coverage in three days. Mr. Nyamordey wanted his upper management staff to receive an orientation to the material.

A "Best Practices Unit" of seven managers was formed during the class presentations to flowchart the actual collection process as it is now being conducted in the district offices. The following are not specifically provided for in the collection manual:

- Certain businesses are padlocked until payment is forthcoming. They are usually small business type taxpayers that pay almost immediately when the action is taken.

This is probably a step in the right direction. However, we are convinced that the seizure and sale procedures outlined in the RC&CM are more effective and is designed to be applied to any size taxpayer.

- Tax collectors often issue verbal cautions regarding potential legal action

Legal action is possible under current law. Internal Revenue Act 2000 (Act 592), Section 135. (2) states in part - "Tax that has not been paid may be sued for and recovered in any court". We see no reason not to notify taxpayers of this potential consequence. This should be a common practice during collection interviews.

- Tax collectors issue verbal cautions that delinquent taxpayers may have their names published in the newspapers.

We did not find specific authorization for this practice under the current Revenue Act. However, the Commissioner is granted a very wide range of authority under Section 113 to administer the Act. This may well fall within his/her discretion.

The managers are convinced these steps have proven to be effective tools and should be used throughout the IRS.

The procedures for conducting the sale of seized property as outlined in the RC&CM require that the property be advertised for sale in a local newspaper. Any future revision of the Act should provide for both procedures.

Some observations by the managers attending the session:

- The Training Department must institutionalize the process by following the procedures outlined in the RC&CM when conducting collection training classes.
- The RC&CM forms should be revised to meet local needs where appropriate and numbered to make them a part of the regular distribution scheme.
- Members of the training staff should have been in attendance.
- The assessment procedures are cumbersome and time consuming. There is general agreement that a comprehensive review must be conducted and a completely new procedure established. The self-assessment process under the new law should be broadened to include more classes of tax. This will enable assessors to spend more time conducting audits.

The session was brief, but very well received. The managers thought that they should have had the benefit of receiving the entire course as they are the people ultimately responsible for implementing it.

Assessments in the District Offices

Provisional assessments are primarily based upon the amount of tax owed for the prior years increased by a certain percentage. The Head Office advises the district offices of the percentages to be levied for each category of tax and taxpayer for the current year. Provisional assessment notices are sent to taxpayers at the beginning of the tax year. These payments are due in four installments over the current tax year. They can either agree or oppose the provisional amount determined by the IRS. (During this review of case files, there was never an instance wherein the taxpayer agreed with the proposed figure. They always suggest a much lower amount). Generally, taxpayers consider them “excessive, arbitrary and bear no true relationship to the results of their business operations”. An inordinate amount of time and effort is expended resolving this one issue. Partial payment agreements and enforced collection action cannot be taken during this stage of the process. When the provisional assessment becomes final, the tax becomes a debt in favor of the Government and formal collection action can be taken.

Organization in the District Offices

The district offices are organized according to type of tax or by schedules. There is a separate group that works withholding taxes. Adabraka is the second largest office in Ghana (Tema is the largest). There are 60 employees - 12 assessors, 8 collectors, 2 in withholding and clerks, assistants, drivers, and a miscellaneous assortment of other employees. The first group visited (Schedule 1) is made of six people, 2 assessors, 2 collectors, one assistant and a trainee. The bulk of their work involves pharmaceuticals and contractors. Much of the contract work is done for the government so they are able to extract 7 ½ percent for taxes prior to paying the money over to the contractor. The second group visited at Adabraka was responsible for Schedules 3 (companies and self-employed) and 5 (manufacturing and chemist). The employee make-up was the same as the first group. The Osu District has 55 employees - 6 assessors, 6 collectors, 2 in withholding and clerks, etc. Both offices have two vehicles and drivers for staff travel and fieldwork.

As discussed earlier we strongly advocate and recommend the functional organizational structure.

Compliance Division

The Asst. Commissioner (Compliance) is a Chief Inspector who is an attorney. He is assisted by two attorneys and an inspector taken from the line functions. This office was established to pursue or resolve IRS issues involving difficult or recalcitrant taxpayer that will most likely result in some type of litigation. It is not the enforcement arm of the IRS as described by the district managers. Several enforcement packages containing portions

of the **Revenue Compliance and Collection** manual that discuss summons, appointment of agent, levy, and seizure and sale provisions were provided for distribution to his staff.

Review of Files and Case Work in the District Offices

One important aspect of working cases, that we have strongly advocated, has been partially adopted. After five years of collection effort, they are now setting aside certain cases (uncollectible) that have been proven unproductive. About two years ago, the Adabraka District Office began sending letters, making calls and field visits in attempts to locate taxpayers who, despite their best efforts, were impossible to locate. Under Schedule 3 there are now 184 company files; they have set aside 51 that were unproductive. Of the self-employed, there are 266. They have set aside 135. Under Schedule 5 – Manufacturing and Chemist, there are now 138 self-employed – 88 were set aside – There are now 212 companies – 56 were set aside. This gives them the opportunity to concentrate on active and presumably more protective cases. This process is also being followed in the other schedules reviewed.

This is a giant step in the right direction. However, there was no evidence that cases are declared uncollectible as the inspector working the case identifies the situation. Both our collection manual and the discussion presented earlier in this report give very detailed instructions as to how these cases should be resolved.

Tax Position Reports –

Collectors do not take the entire file with them on field visits. They must review the entire taxpayer file prior to any field contacts. The clerical staff, from the information contained in the assessment file, prepares the **Tax Position Report**. It is a brief summary of what the taxpayer owes by year. It contains a listing of four taxpayers per page on a spreadsheet with a file number, the taxpayers' name, the year, chargeable income, tax charged, tax paid and tax outstanding. The collector must then verify the correctness of the **Tax Position Report**. The TPR is the collectors' principle document and is relied upon to state the amount the government expects to collect.

File Review – A total of approximately 20 case files were reviewed in the two district offices. Since enforcement actions has not taken by the Compliance Department, no case reviews were conducted. The inspectors working the cases were available to answer any questions regarding when and where specific actions were taken. In a number of files, it was noted that appointment letters, demand notices, etc, were modified for local use. According to the employees working the cases, they have been effective. It was difficult, to near impossible, to determine the effectiveness of actions taken due to the complete lack of documentation. Documentation in a logical sequence with the prime objective focused on collecting the tax is critical.

Documentation by using a **History Sheet** in every case file will ensure that actions taken previously are not needlessly duplicated, cases are processed in an orderly manner, required enforcement is taken when appropriate and managers can easily review the work. A detailed explanation and the form are located in *the Revenue Collection and Compliance Manual*.

Daily Report of Collection Activity by Collection Officers

This procedure is also outlined in the collection manual. During our visit several questions concerning the daily report were raised. The following comments are intended to clarify the procedures. The system will collect time spent and results accomplished. The purpose of the report is to provide IRS management with valuable information where time is spent, results of work performed and the overall efficiency of collection work.

The report should show:

- Amount of time spent collecting tax debts,
- Amount of time spent on overhead tasks,
- Number of taxpayers where collection was completed and amounts collected,
- Number of taxpayers who are classified as not collected,
- The number of and amounts due from taxpayers remaining to be collected, and
- Time spent on other collection tasks, locating taxpayers, assets, etc. (info. is optional).

The report will be prepared daily and rolled into a summary format for the month/year. The information can be accumulated by collection officer, local/district, regional office and nationally.

An analysis of the reports can provide IRS management with:

- ❖ Amounts of taxes collected by staff year,
- ❖ Average time to collect tax debts,
- ❖ Number of taxpayers and amount of debt collected by collection officer, local office, Regional Office and nationally,
- ❖ Number of taxpayers and amount of debt reported as not collectible by collection officer, local office, Regional office and Nationally,
- ❖ Number of taxpayers and amount of debt remaining to be collected,
- ❖ The efficiency of tax collections at various levels, and
- ❖ Data needed to request more staffing when necessary.

You cannot manage what you do not measure. We suggest you test this system in your Large Taxpayer Unit for approximately six months. Depending upon the results, you may wish to expand it to the two districts mentioned earlier.

District Office - File Organization and Maintenance

In the district offices, case files were everywhere – piled on desks, on cabinets and on the floor. It was impossible to discern any semblance of order. This may be due in part to a lack of space but that is not entirely the solution to this problem. A simple filing system with attention to timely retrieving and returning files would help.

Both the assessor and the collector work from the assessment file. The files are generally in poor condition. They are organized from front to back with the earliest information received placed at the front of the file. In most files there was some attempt to segregate the information according to tax year. Fixing responsibility by employee for specific cases will assist in keeping them organized and provide some degree of control to all files.

When the assessment becomes final, a separate collection file should be established. The procedures under *Revenue Compliance and Collection Manual*, Sections 4.5 and 4.6 should be followed. The file must contain a TDA prepared in accordance with the manual section and a case history sheet. The first entry will document the date the file was established and all subsequent collection actions taken. There was occasionally a memo or note giving the reviewer some indication of the direction the case was taking, but this was rare. There was no chronological listing of events and actions taken. Consequently, it was nearly impossible to determine the day-to-day activity or the latest efforts taken to collect the tax. An employee newly assigned to the district or attempting to assist would not know which step(s) were taken or which should be taken next.

File organization and maintenance are critical factors in the orderly and timely processing of collection work.

During our office visits and by talking to employees, it appears that considerable time is spent in the office, - reviewing files, moving them about, etc without specific purposes in mind. At least three and sometimes as many as five employees will visit one taxpayer at the same time. This is considered a security precaution. They may see 5 taxpayers in a day. In one office very little to no field work is done until about June of each year. The rationale is that two more provisional periods have become due and collection efforts on final assessments can restart about that time. In another office, the collectors are averaging about two field contacts a month. Both of these offices are located in densely populated areas of the city. The use of their personal autos and walking, in some instances, should not impose unreasonable problems.

- The time and attendance procedures mentioned earlier will enable managers to better assess the effectiveness of time utilization by employees and provide valuable program information.

- Given the large number of assessments and potential noncompliance that exist, a greater emphasis must be placed on field collections.
- The Asst. Commissioner (Training) must sustain the process by making the “Revenue Compliance and Collection Manual” an integral part of their training program for collectors.
- The assessment process must be revised in its entirety with an added emphasis on self-assessment for certain categories of taxpayers.
- A study group should be established to review all forms developed in the “Revenue Compliance and Collection Manual”. Those selected should be numbered and distributed for nation-wide use.
- The uniform procedures for reporting accounts currently uncollectible discussed earlier in this report should be established for nation-wide implementation.

Power of Attorney

An important factor in dealing with taxpayer representatives or other third parties is the requirement that information of a confidential nature is to be only disclosed to properly authorized persons. Disclosure of information of a confidential nature to third parties representing or otherwise acting on behalf of taxpayers (except for certain governmental bodies) may generally be made only pursuant to **written** authorization from the taxpayer. Despite this general rule, an employee may always disclose information to a third party to the extent necessary to resolve the investigation

A declaration, once filed and associated with appropriate tax return(s) or other material(s), is presumed to remain valid unless the Service has evidence to the contrary.

To the extent possible, whenever contacting a taxpayer’s representative, telephone for an appointment before visiting the taxpayer’s office. This procedure may be waived (with managerial approval) when it is not advantageous or distraint action is imminent.

The taxpayer’s representative should be given only copies of communications that have a direct bearing on the nature of his or her representation.

Note – Mr. Morny, Asst. Commissioner for the Large Taxpayers Unit, specifically requested our assistance in developing a form and procedure for securing Powers of Attorney.

Form No.

**Power of Attorney
And Declaration of Representative**

IRS use only
Received by
Name _____
Date _____

(Type or Print)

1. Taxpayer Information – (Taxpayer must sign and date this Form)

Taxpayer Name(s) and Address

Identification Number

Daytime telephone Number

2 Representative(s) – (Must sign and date this form)

Name and Address

Telephone Number _____

FAX Number _____

Name and Address

Telephone Number _____

FAX Number _____

3 Tax Matters

Type of Tax (Income, Employment, etc – Tax **Form Number** **Years or Periods**
Be specific)

4 Acts authorized: The representatives are authorized to receive and inspect confidential tax information and to perform any and all acts that I(we) can perform with respect to the tax matters described on line 3, for example, the authority to sign any agreements consents, or other documents. The authority does not include the power to receive refunds checks, the power to substitute another representative or the power to sign certain return returns
List any specific additions or deletions to the acts otherwise authorized in this power of attorney

5 Signature of taxpayer(s) If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

➤ **If not signed and dated, this power of attorney will be returned.**

Signature

Date

Title (if applicable)

Signature of Representative

Date

Title